INVITATION FOR OFFER – UNRESTRICTED RIK CRUDE OIL SALE
IFO No. 1435-02-05-RP-25919
Deliveries beginning August 1, 2005

Introduction

The Minerals Management Service (MMS) of the U.S. Department of the Interior is soliciting offers from pre-qualified companies to buy royalty oil and condensate produced from certain Federal leases in the Gulf of Mexico.

This Invitation for Offer (IFO) is for a 4-month sales term beginning August 1, 2005. Successful offerors will take custody of the royalty oil at the applicable custody transfer point as shown in Exhibit A and are responsible for moving the royalty oil downstream of this point.

Offers must be made in writing and submitted to Allen Vigil via facsimile (303-231-3846) or email (allen.vigil@mms.gov) by 2:00 pm MST on June 8, 2005. MMS will confirm receipt of all offers by telephone. Royalty oil packages will be awarded by 2:00 pm MST on **June 10, 2005**. Call Allen Vigil for technical questions at 303-231-3098; Maggie Miller for contracting questions at 303-231-3932; and Larry Cobb for pre-qualification or credit questions at 303-231-3307.

Offers

Offerors must be pre-qualified to submit offers. Please see the "Pre-qualification and Credit Requirements" section for more information. MMS reserves the right to reject any offer received.

Exhibit A identifies 2 packages of royalty oil. Exhibit B provides further detail on Facility Measurement Point (FMP) operators, pipelines, and custody transfer points. Data in the exhibits is not warranted and offerors are expected to contact the appropriate parties for the most recent information. The royalty volumes shown for each custody transfer point represent the most recent production data available for properties behind the custody transfer point. Other pertinent information such as leases/agreements, properties, operators, and royalty rates will be provided in an attachment to the "MMS Crude Oil Transaction Confirmation" sent to the successful offeror upon award.

Royalty oil from any new wells on currently producing properties supplying custody transfer points during the contract term will be automatically added to the awarded volumes. Royalty oil from any new properties supplying custody transfer points during the contract term will be added to the awarded volumes on a case-by-case basis pursuant to mutual consent of all parties.

Exhibit A is the offer sheet to be completed and faxed or emailed. Offerors must be to the nearest $0.0001. MMS prefers no more than one award for each package. However, MMS may consider offers on only part of a royalty oil package if favorable to the government.

Offerors must submit offers as an increment or decrement from either or all of the preferred pricing formulas listed below. If you would like to submit an offer based on an alternative pricing formula, please caveat your offer with the alternative pricing formula used and/or call the technical contact listed above.

1. (Koch WTI Posting + Platts or Argus P$^+$) – (Platts or Argus WTI – Platts or Argus Crude Type)
2. (Calendar NYMEX + Daily Roll) – (Platts or Argus WTI – Platts or Argus Crude Type)
3. (Platts or Argus Trade Month Average) – (Platts or Argus WTI – Platts or Argus Crude Type)
4. (Calendar NYMEX) – (Platts or Argus WTI – Platts or Argus Crude Type)

For package 1 designated as "HOOPS," use crude type "WTS" in the pricing formula. Offers on package 2 may be for crude types Bonito and/or Eugene Island.

Where: Koch WTI Posting: Koch Supply and Trading's posting for West Texas/New Mexico Intermediate (WTI), deemed 40° API, for the Physical Month of Delivery

Platts or Argus P^+: Arithmetic average of the daily high and low price quotes for "P-Plus WTI" for the Platts or Argus Month of Delivery

Platts or Argus WTI: The arithmetic average of the daily high and low price quotes for WTI for the Platts or Argus Month of Delivery

Platts or Argus Crude Type: The arithmetic average of the weighted average daily high and low price quotes for crude type for Platts or Argus Month of Delivery

Platts or Argus Trade Month Average: The arithmetic average of the weighted average of the daily high and low price quotes for the Platts or Argus Month of Delivery

Calendar NYMEX: Arithmetic average of the daily settlement price for the "Light Sweet Crude Oil" front month futures contract reported by the New York Mercantile Exchange (NYMEX) during the Physical Month of Delivery (excluding weekends and holidays)

Platts or Argus Month of Delivery: Refers to quotes in Platts Oilgram Price Report or Petroleum Argus Americas Crude Price Report for the period of time from the twenty-sixth day of the month two months prior to the physical month of delivery through the twenty-fifth day of the month one month prior to the Physical Month of Delivery (excluding weekends and holidays)

Physical Month of Delivery: The calendar month when the crude oil is delivered

<u>Daily Roll: (X – Y).6667 + (X – Z).3333, where:</u>

X = Average of the daily NYMEX settlement price for the prompt month, trading days only, when the Physical Month of Delivery is the prompt month trading on NYMEX
Y = Average of the daily NYMEX settlement price for the second month during the same period, trading days only
Z = Average of the daily NYMEX settlement price for the third month during the same period, trading days only

MMS may award a contract on the basis of initial offer(s) received without discussions. Accordingly, each initial offer should be submitted on the most favorable terms that the offeror can submit. However, MMS may negotiate with offerors in the event offers of similar or unanticipated values are received. All information about the origin and value of offers received will remain confidential, except as noted below under "Imbalances" with respect to resolving certain extraordinary imbalances.

The MMS shall award a contract resulting from this IFO to the party whose offer, in MMS' judgment, is most advantageous to the Federal Government. MMS will award to successful offerors by means of the "MMS Crude Oil Transaction Confirmation." MMS will attempt to award 100 percent of the volume from a custody transfer point.

<u>Term</u>

Delivery of royalty oil begins August 1, 2005 and ends November 30, 2005.

<u>Quality</u>

For package 2, quality bank debits/credits <u>should not be</u> included in your offer. Successful offerors <u>will pass back</u> to MMS all quality bank(s) debits/credits received from the quality bank administrator(s).

Successful offerors must pay quality bank credits due to MMS by the 20th of the month after receipt. MMS will pay invoices from successful offerors for all quality bank debits received from the quality bank administrator within 30 days of receipt of the invoice. All quality bank data must be accompanied by supporting documentation.

The quality information in the Exhibits represents MMS' most recent data for the FMP in the packages offered. Actual quality during the term of this sale may vary. Data provided by MMS is based on the best information available at the time of IFO publishing and is not warranted.

Transporting and Scheduling Royalty Oil

Successful offerors are responsible for transporting all royalty oil volumes downstream of the custody transfer point specified in Exhibit A. Successful offerors must nominate and schedule all volumes awarded through this IFO separately from all other volumes owned or controlled at the custody transfer point where royalty oil is received. When nominating to the pipeline, you are required to indicate that the nomination is for MMS sourced crude oil.

Within 10 days of execution of the "MMS Crude Oil Transaction Confirmation" relative to this IFO, successful offerors must request in writing to all pipeline companies moving royalty oil, that MMS royalty volumes be itemized separately from non-MMS volumes. In cases where the pipeline companies are unable to itemize the MMS volumes on the pipeline statement, you must provide MMS with acceptable third-party data itemizing the MMS volumes delivered or use a pipeline assigned measurement facilitator. Any charges associated with obtaining this third-party data are the responsibility of the successful offeror.

Successful offerors will provide MMS with pipeline statements and any third-party documentation within 2 days after the documents have been made available to the shipper. Documentation not received by the due date may be purchased by MMS with the successful offeror being billed the associated costs.

Successful offerors, through customary industry practice, will communicate directly with MMS and the FMP operator and will make arrangements to deliver and transfer the royalty oil from the identified custody transfer point. Successful offerors, at their expense, will make all necessary arrangements to receive royalty oil at the custody transfer point and are not responsible for any transportation costs upstream of the custody transfer point. For package 1 designated as "HOOPS," receipts at Jones Creek are based on Actual Production.

No later than 5 calendar days before the first day of each month, the MMS will notify successful offerors of the daily royalty oil volumes anticipated for the following month of production. Successful offerors understand that any such estimates are not warranties of actual deliveries to be made but are provided to facilitate planning the delivery of royalty oil. This process will continue for each month of the term of this IFO.

MMS instructs the operators of offered properties to use reasonable efforts, consistent with industry practice, to inform MMS and/or successful offerors of significant changes in royalty oil production levels and production shut-ins.

Upon mutual consent between MMS and its successful offeror, the successful offeror's contract may be amended when there is an increase or decrease in tariff-based transportation costs related to awarded properties. Unless extraordinary circumstances exist, contract amendments will not be granted for rate changes in offeror's buy/sell arrangements.

Imbalances

Successful offerors are granted rights to royalty oil delivered by operators at the custody transfer points indicated in Exhibit A, not actual entitlements due the Federal Government.

MMS and the operator will jointly monitor imbalances between deliveries and entitlements. Routine imbalances will be resolved by adjusting the volume of royalty oil delivered to successful offerors in the second month following the month of delivery unless otherwise approved by MMS. MMS will communicate these adjustments to the successful offeror regarding the first of month availability of royalty oil.

MMS and the operator will mutually resolve property imbalances not remedied within 90 days of the production month. The contract price under this IFO may form the basis of resolving certain extraordinary imbalances. The rights and responsibilities under RIK oil situations are outlined in MMS' Sample "Dear Operator" letter included as Exhibit C. MMS is not responsible for royalty crude oil pipeline imbalances.

Confidentiality

Neither party shall disclose directly or indirectly, without the prior written consent of the other party, the terms of any transaction to a third-party (other than the employees, lenders, royalty owners, counsel, accountants and other agents of the party, or prospective purchasers of all or substantially all of a party's assets or of any rights under this Contract, provided such persons shall have agreed to keep such terms confidential) except; (i) to comply with any applicable law, order, regulation, or exchange rule, (ii) to the extent necessary to enforce this Contract, (iii) to the extent necessary to implement any transaction, including any transaction as described above in the section "Transporting and Scheduling Royalty Oil", or (iv) to the extent such information is delivered to such third-party for the sole purpose of calculating a published index.

Each party shall notify the other party of any proceeding of which it is aware which may result in disclosing the terms of any transaction (other than as permitted above) and use reasonable efforts to prevent or limit the disclosure. The existence of this Contract is not subject to this confidentiality obligation. The terms of any transaction hereunder shall be kept confidential by the parties hereto for 1 year from the expiration of the transaction.

Pre-qualification and Credit Requirements

Offerors are required to pre-qualify by signing the MMS base contract "RIK Crude Oil General Terms and Conditions" and providing detailed financial information. Pre-qualification information can be found on our web site at http://www.mrm.mms.gov/RIKweb/Oilprequal.htm. By submitting an offer, the offeror agrees to be bound by the terms of its signed MMS base contract and this IFO.

Upon pre-qualifying, MMS will issue an amount of unsecured credit based on the creditworthiness of the offeror. In most cases where offerors have submitted their most current financial documentation, or such information is available on Edgar Online, no additional information will be required. However, MMS reserves the right to request updated financial information in any situation it deems reasonable and may reissue approved lines of credit. Please be advised that MMS will require a parent guaranty in situations where the company submitting the offer is a different entity than the company that has pre-qualified.

For awards exceeding the amount of unsecured credit issued by MMS, successful offerors will be required to provide secured financial assurance in the form of an Irrevocable Letter of Credit (ILOC), Bond, or other MMS-acceptable surety instrument within 5 business days prior to first delivering oil under the contract. If additional security is required, successful offerors will be notified, and such notice will be included in the sales transaction confirmation.

The ILOC, Bond, or other MMS-acceptable surety instrument must be effective for a period beginning on the date of first delivery under the contract and ending when receipt of final delivery or payment under the contract is verified. Failure to provide adequate financial assurance when requested may result in a loss of award, unless the MMS Contracting Officer extends the date.

See our website at http://www.mrm.mms.gov/ReportingServices/PDFDocs/4071.pdf for a sample of the ILOC, MMS Form-4071. For Bonds, go to http://www.mrm.mms.gov/ReportingServices/PDFDocs/4072.pdf for MMS Form-4072. The financial institution issuing the ILOC or surety company issuing the Bond must meet MMS requirements under 30 CFR Part 208.11.

The financial assurance amount shall be sufficient to cover the value of 60 days of deliveries of the estimated production of all royalty oil awarded, less the amount of unsecured credit issued by the MMS as previously notified. For new surety instruments, the MMS will contact you regarding the calculation of an estimated amount of surety to be provided prior to initial deliveries. This value must be multiplied by the daily royalty production (estimated in Exhibit A), multiplied by 60 days, and then reduced by the amount of unsecured credit issued by MMS. For continuing surety instruments, we will contact you regarding renewal requirements. The amount of unsecured credit available for this sale is contingent upon the successful offeror's current participation in other RIK sales or exchange programs.

Significant and sustained increases in the value of crude oil during the term of the contract may result in requiring an increase in the amount of financial assurance. Further, should the creditworthiness, financial responsibility, or ability to perform become unsatisfactory to the MMS at any time during the term of this agreement, satisfactory assurances may be required as a condition to further performance under the agreement. Such assurances include, but are not limited to, a prepayment or a surety instrument in a form and amount satisfactory to MMS. Failure to provided additional performance assurances when requested may result in early termination of the contract. Where applicable, an investment-grade rating by Standard and Poor's is required by MMS to maintain creditworthiness.

Governing Contract

This transaction is governed by the MMS base contract "RIK Crude Oil General Terms and Conditions," signed by the offeror and MMS. Conflicts between the MMS base contract and the terms of this IFO will be resolved in favor of this IFO. Only companies who have pre-qualified and signed the MMS base contract may receive a contract.

MMS will send the successful offeror a Transaction Confirmation detailing the award packages. Transaction Confirmations not signed and returned and/or errors noted within 2 business days of receipt of the Transaction Confirmations will be deemed binding on behalf of both parties.

Paperwork Reduction Act of 1995 (PRA) Statement:

The OMB Control Number for this IFO is 1010-0126 with an expiration date of June 30, 2006. The PRA (44 U.S.C. 3501 et seq.) requires us to inform you that we collect this information to document fulfillment of royalty obligations on minerals removed from Federal lands. The MMS uses the information to maintain and audit lease accounts. Responses are voluntary (43 U.S.C. 1334). Proprietary information is protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(1), (4)), and the Department regulations (43 CFR 2). An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB Control Number. Public reporting burden for this form is estimated to average 1 hour per response, including the time for reviewing instructions, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form to the Information Collection Clearance Officer, Minerals Management Service, Mail Stop 4230, 1849 C Street, NW. Washington, DC 20240.

3 Exhibits:
Exhibit A – Offer Sheet
Exhibit B – RIK Custody Transfer Point Detail
Exhibit C – Sample Dear Operator Letter

Minerals Management Service **Offer Sheet** **Exhibit A**

Unrestricted RIK Crude Oil Sale

IFO No. 1435-02-05-RP-25919

Deliveries beginning: August 1, 2005

Offer Pkg	Royalty Oil Type	Gulf Coast Market Center	Custody Transfer Point	Custody Transfer Point Royalty Volume (bbls/day)	Gravity	Sulfur %	Koch P+ Offer (Platts)	Koch P+ Offer (Argus)	NYMEX w/ roll Offer (Platts)	NYMEX w/ roll Offer (Argus)	Platts Trade Month Offer (Platts)	Platts Trade Month Offer (Argus)	Nymex CMA - no roll Offer (Platts)	Nymex CMA - no roll Offer (Argus)
1	HOOPS	Jones Creek	Jones Creek	8,000	31.2	1.12%								
2a	Bonito	St. James	GB 783 A	2,500	38.0	0.80%								
2b	EI	St. James	GB 783 A	2,500	38.0	0.80%								

Your Name **Phone No.**

Company Name **Fax No.**

MMS Contacts

Allen Vigil	303-231-3098	allen.vigil@mms.gov
Crystel Edler	303-231-3126	crystel.edler@mms.gov
Fax No.	303-231-3846	

Minerals Management Service
Unrestricted RIK Crude Oil Sale
IFO No. 1435-02-05-RP-25919
Deliveries beginning: August 1, 2005

RIK Custody Transfer Point Detail

Exhibit B

Offer Pkg	Royalty Oil Type	Gulf Coast Market Center	Custody Transfer Point	Royalty Volume Metered At	MMS FMP No.	FMP Operator	Custody Transfer Point Royalty Volume (bbls/day)	Gravity (Note 2)	Sulfur % (Note 2)	Pipelines	Common Carrier(s)
1	HOOPS	Jones Creek	Jones Creek (from AC 25 A)	Jones Creek	20608050130	ExxonMobil	3,170	N/A	N/A	ExxonMobil P/L into the Seaway Terminal inlet	yes
		(note 1)	Jones Creek (from EB 602 A)	Jones Creek	20608040134	Kerr-McGee	2,380	N/A	N/A	ExxonMobil P/L into the Seaway Terminal inlet	yes
			Jones Creek (from EB 643 A)	Jones Creek	20608040135	Kerr-McGee	2,450	N/A	N/A	ExxonMobil P/L into the Seaway Terminal inlet	yes
						Pipeline Total	**8,000**	**31.2**	**1.12%**		
2a	Bonito	St. James	GB 783 A	GB 783 A	20608072603	Conoco Phillips	2,500	38.0	0.80%	• Auger P/L into Ship Shoal P/L or;	yes
	or									• Auger P/L into Bonito P/L into Ship Shoal P/L or;	yes
2b	EI	St. James								• Auger P/L into Eugene Island P/L into	yes
										Shell's South Louisiana System	yes
						Pipeline Total	**2,500**				
						Grand Total	**10,500**				

• FMP: Facility Measurement Point
• N/A: Not Applicable

Note 1: FMP 20608040134 (EB 602 A) contains a lease in Royalty Relief status whose volume will not be included in deliveries to the purchaser.
Note 2: Gravity and Sulfur are not warranted and are measured at the Custody Transfer Point.

Exhibit C

MMS/MRM/RIK
Mail Stop 330B2

, 2005

(Address)

Dear (Title, Name):

The Minerals Management Service (MMS) selected one or more offshore Federal leases in the Gulf of Mexico (GOM) , that you operate or are a working interest owner of, to be included in a Royalty In-Kind (RIK) program where we will take crude oil and condensate royalty production in-kind beginning August 1, 2005. This letter supersedes previous operator letters you received regarding oil royalties taken in-kind and is effective the first day of deliveries.

This letter provides the procedures and establishes the terms and conditions under which the United States (Lessor) will take crude oil royalties in-kind. Our authority is the Outer Continental Shelf Lands Act of 1953 (43 U.S.C. § 1353) and the royalty provisions contained in your Federal lease. For the purposes of this letter, royalty oil means the Federal lease oil and condensate production multiplied by the lease royalty rate. The volumes of royalty oil taken in-kind by the Lessor will reflect and be consistent with all grants of royalty relief.

Term

The Lessor will take all royalty oil in-kind from your properties flowing to the Facility Measurement Point(s) (FMP) listed in Enclosure 1, beginning August 1, 2005, and will continue taking royalties in-kind until we notify you that the in-kind status is terminated. We will provide Lessees and Operators with at least a 45-day prior written notice when terminating the in-kind status.

Royalty Oil Delivery

The delivery points for royalty oil produced from the properties are at the FMP or first interconnect into a main pipeline, as identified in Enclosure 1, which lists the properties approved to flow to the FMPs. It is your responsibility to ensure that royalty production from any of your properties that is actually flowing to the designated FMP on any given month will be delivered in-kind to the Lessor or our designee, with the exception of leases in royalty relief status, section 6 leases (unless otherwise noted), state leases, or net profit share leases. The Lessor or designee will take custody and responsibility for royalty oil at the delivery point.

You can be reimbursed for transportation and quality bank debits and/or quality differentials associated with royalty oil delivery to points identified in Enclosure 1 that are downstream of the FMP in accordance with the applicable MMS regulations. In addition, you must pay MMS for any quality bank credits received associated with royalty oil delivery to points identified in Enclosure 1 that are downstream of the FMP in accordance with the applicable MMS regulations. If gathering upstream of the FMP is approved by MMS, you may take this deduction, as well as other related fees, on the Report of Sales and Royalty Remittance (Form MMS-2014). You will be required to report quality bank debits and credits for properties where the quality bank is passed back to the operator/producer or where a quality differential exists on a pipeline where there is not an instituted quality bank, as allowed in applicable MMS regulations. Please use the applicable GravCap tables to calculate the quality differential on pipelines where there is a not an instituted quality bank.

Royalty oil must be placed in marketable condition at no cost to the Lessor. Marketable condition means the condition generally acceptable to purchasers in the field or area. Questions on marketable condition should be directed to the Lessor's points of contact identified in this letter.

You must deliver all royalty oil from the selected leases, including royalty oil from newly producing wells on these leases. During the in-kind period, you will make your best effort to notify the Lessor's designated point of contact of new oil production flowing to the FMP identified in Enclosure 1. Royalty oil from such new properties may be added to the RIK volumes at the existing delivery points by the Lessor.

<u>Fulfillment of Royalty Obligations</u>
Delivering the accurate volume of royalty oil (taking into account the effects of normal operational imbalances) in accordance with the terms of this letter will satisfy in full the Lessee's royalty obligation to the Lessor.

For properties where the Lessee has applied for deepwater royalty relief, you may use the proposed royalty rate in the interim before MMS/Offshore Minerals Management (OMM) approves the reduction. If OMM does not approve the royalty rate reduction, the resulting imbalance will be resolved in the same manner as described below for imbalances not remedied within 90 days (see "Balancing Account and Imbalances.")

All rent or minimum royalty obligations remain the responsibility of the Lessee. If the Lessee owes minimum royalties, the Lessor will issue a bill including information supporting the calculation. The Lessee will have 30 days to review the bill and make payment or appeal the bill.

<u>Lessor's Obligation to Take</u>
We agree to take 100 percent of the royalty oil delivered to the delivery point for the account of the Lessor. We will try to minimize imbalances with you and the Lessees using reasonable and customary industry practices.

To facilitate timely and accurate custody transfer of royalty oil, we will communicate with you regarding arrangements to transfer the royalty oil from the delivery point. The Lessee will not incur royalty-related penalties because of the Lessor's failure to take delivery of oil volumes as communicated by the Operator.

<u>Communication with Lessor</u>
You must notify the Lessor in writing via facsimile (303-231-3846) or e-mail addressed to our mailbox (rik.project@mms.gov) of the daily royalty oil volumes (Avails) anticipated for the following month of production by the dates shown in Enclosure 2 for each of the properties identified in Enclosure 1. On this same schedule, for each of the properties, you will also provide any anticipated volume adjustments to resolve previous months' imbalances. The total volumes to be delivered to our purchaser at each of the delivery points must be indicated as a volume net of anticipated production plus or minus any adjustments.

The Lessor understands that any such estimates are not warranties of actual deliveries but are provided to facilitate planning.

You must use reasonable efforts, consistent with industry practice, to inform the Lessor as soon as practical regarding significant changes to the information listed in Enclosure 1; for example, oil production levels, oil type, and/or royalty rates for the RIK contract properties, as well as if the property was sold and to whom it was sold.

Volume Reconciliation

You must provide the pipeline with the volume allocation for MMS' royalty oil separately from other take in-kind owners.

You must send all volume allocation schedules provided to pipeline companies that address royalty oil volumes at the delivery points in Enclosure 1 to MMS at the same time they are submitted to the pipeline companies.

You must provide the lease imbalance statement to MMS no later than 45 days after the end of the month of production, unless MMS approves an alternative timeframe for submitting the statement. We will monitor and reconcile royalty entitlements with the royalty oil deliveries you make. Reconciliation will involve communication between you and MMS. Upon project termination, you as the Operator, must issue a final oil imbalance statement. You will settle in accordance with the section "Balancing Account and Imbalances." Volume allocation schedules and lease imbalance statements must be submitted to the rik.project@mms.gov mailbox.

Operator Assignments

For leases which are being taken in-kind and which you are assigning to another operator, you will make the best reasonable effort to notify one of the Lessor's Points of Contact - New Lease Production listed below. In addition, any ending imbalance existing at the effective date of the assignment will be cashed out as described under "Balancing Account and Imbalances."

Balancing Account and Imbalances

You and MMS will jointly monitor imbalances between delivered and entitled volumes of royalty oil. You will take timely action to remedy such imbalances by adjusting the royalty oil volumes delivered to MMS. Such volume adjustments will be identified in your communication of royalty oil volumes anticipated before the month of production (see above under "Communication with Lessor.")

Imbalances will be remedied in the production month following the month that the imbalance is identified. Imbalances not remedied within 90 days of the end of the production month will be resolved as follows:

- Mutually agreed upon make-up delivery schedule.
- Cash out payment based on the contract price (at the delivery point) that MMS actually received (or would have received) from its Purchaser during the month or months that the imbalance occurred. Interest will accrue from 60 days after notification that cash out payment is due.

When the lease is no longer taken in-kind or after cessation of production from a lease, imbalances will be cashed out based on the MMS contract price (at the delivery point) for the last month the lease is taken in-kind. Interest will accrue starting 60 days after the final month of delivery. Imbalances remaining at the time of any sale/assignment of properties identified in Enclosure 1 will be settled in compliance with your Purchase and Sale Agreement assignments.

Reporting

You must continue to report crude oil production on the Oil and Gas Operations Report (OGOR). You must also report transportation allowances and quality bank debits/credits on the Form MMS-2014 for any royalty volumes that are delivered downstream of the FMP or where the quality bank is passed back to the operator/producer under requirements specified in the MMS regulations and the MMS *Minerals Revenue Reporter Handbook*, please see our website at http://www.mrm.mms.gov/ReportingServices/PDFDocs/RevenueHandbook.pdf.

You will not be required to report royalties for the RIK properties listed in Enclosure 1 on the Form MMS-2014 for the term during which the Lessor takes royalty in-kind, with the exception of properties noted as royalty relief, section 6 (unless being taken in-kind), net profit share, and any retrograde or free condensate not delivered to the Lessor. You must continue to report these properties on the Form MMS-2014 per the MMS regulations. Reporting does not change for non-RIK leases.

Lessor's Designee

The Lessor may act by or through a duly authorized designee. Enclosure 1 provides MMS' designee at each custody transfer point. The designee will agree in writing to comply with all provisions of this letter that are applicable to the Lessor when the designee acts on our behalf. You are allowed, but not required, to direct communications to our designee. You are required to direct communications to us. We will provide written notification when the designee changes or is no longer authorized to act on our behalf for the purposes of this letter.

Audit

The Lessor may audit your records regarding all information relevant to volumes and qualities of royalty oil produced, measured, delivered, and if applicable, transported. We reserve the right to examine your financial records for the subject properties related to any transportation allowances and quality banks prior to the delivery point.

Lessees, Operators, and revenue payors must maintain all records of transactions mentioned in the above paragraph in accordance with the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (Public Law 104-185 Section 115(f)).

Lessor's Point of Contact

Copies of all correspondence between the Operator and Lessor should be kept on file by the Operator. Points of contact for the Lessor are listed below:

- Volume Avails (Anticipated Volumes), Volume Allocation Schedules, and Operator Imbalance Statements:

  Ms. Bernie Muniz

Telephone: 303-231-3854; Fax: 303-231-3846
E-mail: Bernadette.Muniz@mms.gov

- New Lease Production:

  Ms. Crystel Edler (BON, POS, EI, MARS, & SGC)
  Telephone: 303-231-3126; Fax: 303-231-3846
  E-mail: Crystel.Edler@mms.gov or

  Mr. Richard Fantel (HLS)
  Telephone: 303-231-3502; Fax: 303-231-3846
  E-mail: Richard.Fantel@mms.gov or

  Ms. Donna Hogan (LLS & TXG)
  Telephone: 303-231-3148; Fax: 303-231-3846
  E-Mail: Donna.Hogan@mms.gov or

  Mr. Allen Vigil (LLS, HLS-SB, & HOOPS)
  Telephone: 303-231-3098; Fax: 303-231-3846
  E-Mail: Allen.Vigil@mms.gov

- Electronic Funds Transfer:

  Mr. Joe Romero
  Telephone: 303-231-3123; Fax: 303-231-3501
  E-mail: Joseph.Romero@mms.gov

- Marketable Condition Questions:

  Mr. Roman Geissel
  Telephone: 303-231-3226; Fax: 303-231-3473
  E-mail: Roman.Geissel@mms.gov

We acknowledge that you and the Lessees have given proper notice when using the telephone number or fax number provided to communicate with us. Any telephone communication regarding volumes must be confirmed by fax or e-mail no later than 1 business day after telephone communication occurs. We further agree to make arrangements to receive such communications regarding oil scheduling issues during normal business hours. You and the Lessees should communicate with one of the points of contact to answer any further questions.

The Paperwork Reduction Act

The OMB Control Number for this Dear Operator Letter is 1010-0126 (Small Refiner and Unrestricted RIK Program properties) and 1010-0129 (Strategic Petroleum Reserve Fill Initiative properties) with an expiration date of June 30, 2006 and July 31, 2006, respectively. The PRA (44 U.S.C. 3501 et seq.) requires us to inform you that we collect this information to document fulfillment of royalty obligations on minerals removed from Federal lands. The MMS uses the information to maintain and audit lease accounts. Responses are mandatory (43 U.S.C. 1334). Proprietary information is protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(1), (4)), and the Department regulations (43 CFR 2). An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB Control Number. Public reporting burden for this form is estimated to average one hour per response, including the time for reviewing instructions, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form to the Information Collection Clearance Officer, Minerals Management Service, Mail Stop 4230, 1849 C Street, NW., Washington, DC 20240.

Sincerely,

Gregory W. Smith
Deputy Program Manager
for Royalty In-Kind